



DESC World Wide Energy Conference
2004

Utilities Privatization Federal Finance Overview



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Bostonia
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Agenda

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- **Defining Financial Parameters**
- **Financial Structuring Options**
- **Finance Plan**
- **Challenges to Financing**
- **Meeting the Challenges**
- **Setting Interest Rate**
- **Future of UP Finance**



Defining Financial Parameters

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- **Risks**

- Contractual Provisions
- Project Characteristics
- Payment Flow

- **Term**

- Amortization and Depreciation Periods
- Future Finance Rate Commitment
- Construction / Improvement Period

- **Capital Requirements**

- Upfront Requirements
- 50-Year Upgrade Requirements
- Near Term Requirements



Financial Structuring Options

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- **Debt / Equity Analysis**

- Senior Debt
 - Recourse
 - Non-Recourse
- Subordinated / Mezzanine Debt
- Equity

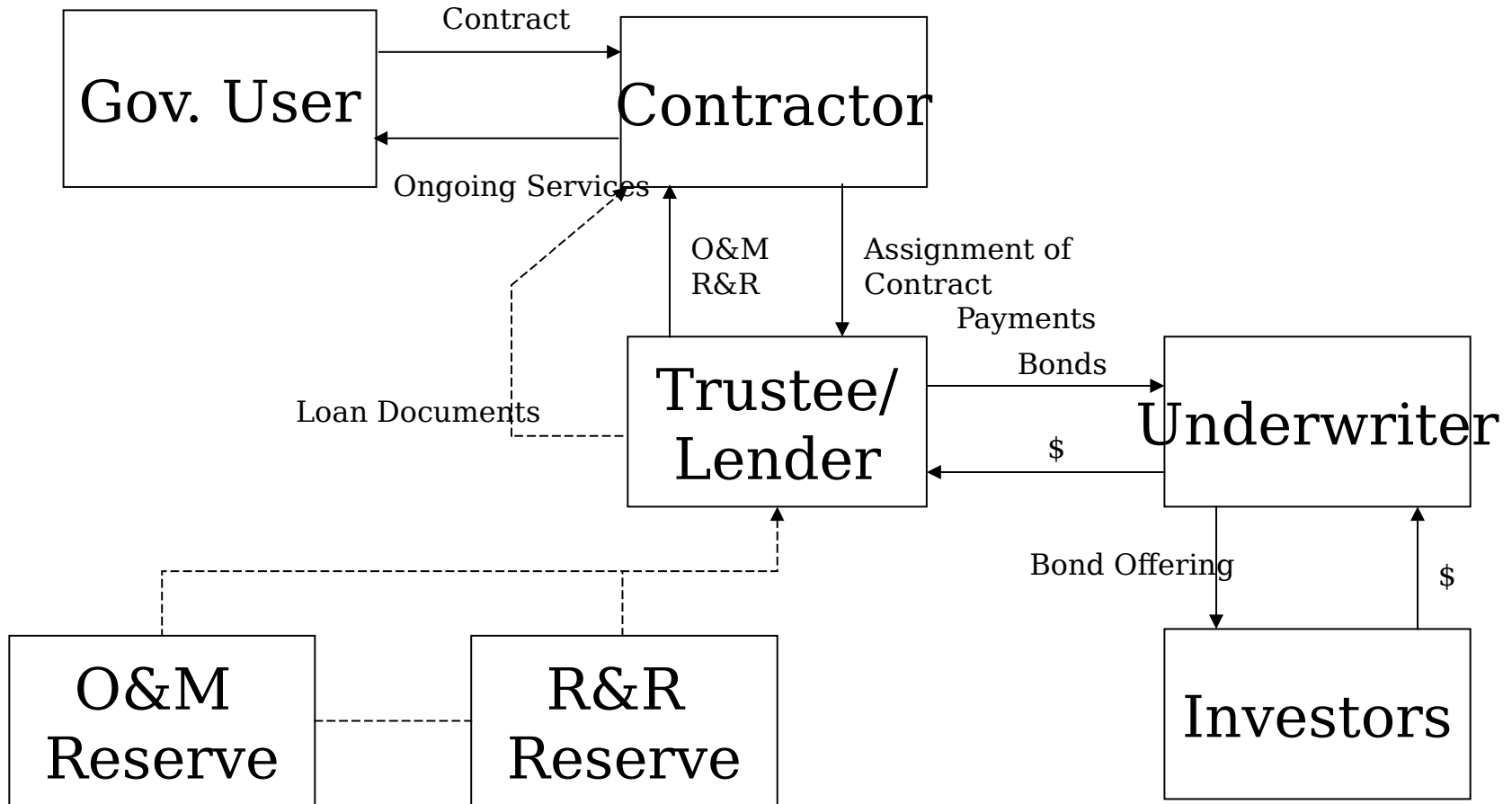
- **Credit Analysis**

- Single Credit Risk
- Blended Credit Risk
- Return Requirements
 - Debt
 - Equity



Overview of Finance Plan

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Challenges to Financing

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- **Credit Risks**
- **Long Term Project Risks**
- **Uncertainty of Cash Flows**
- **Difficulty in Setting Interest Rate**
- **Minimal Recognition of Lender Rights**



Meeting the Challenges

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- **Develop Multi-Model Plan of Finance**
- **Optimize Credit Aspects**
- **Minimize After Tax Impact**
- **Identify Targeted Sectors of Capital Markets**
- **Broaden Understanding of Utility Privatization**



Setting Interest Rate

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- **Spread to US Treasuries Based on Weakest Non-Mitigatable Risk**
 - Market Prices to Lowest Common Denominator
- **Spread Sensitive to Market Sentiments**
 - Comparable Deals
 - Industry Sector
 - Structure
- **Length of Amortization Period**
- **Credit Support Available**
 - Bonds
 - Guarantees
 - Reserves



Future of UP Finance

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- **Add “Finance Friendly” Language to Contract**
- **Recognize Industry Constraints**
- **Improve Legal and Procedural / Policy Framework**
- **Improve Certainty of Outcome**
- **Make Process Faster and More Efficient**



Conclusion

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- **Other Federal Initiatives Have Become Efficient**

- GSA Space Leasing
- Military Housing
- Energy Savings Performance Contracting
- Enhanced Use Leasing

Prediction:

Financing for Utility Privatization Will Become More Available
at Better Rates as Program Improves and Matures.....



Questions?

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